Julius Bär

2020

BASEL III PILLAR 3 DISCLOSURES JUNE 2020

Julius Baer Group Ltd.

According to FINMA circular 2016/1 'Disclosure Banks'

BASEL III PILLAR 3 DISCLOSURES JUNE 2020 JULIUS BAER GROUP LTD.

INTRODUCTION

SCOPE OF PILLAR 3 DISCLOSURES

This report provides Pillar 3 disclosures for Julius Baer Group Ltd. (the Group) on a consolidated basis as at 30 June 2020. The disclosures in the report are based on the FINMA regulatory requirements as prescribed in the circular 2016/1 'Disclosure – banks' which includes the implementation of the revised Pillar 3 disclosure requirements issued by the Basel Committee on Banking Supervisions (BCBS) in March 2017.

The aim of the Pillar 3 standards is to improve comparability and consistency of disclosures through the introduction of harmonised templates. The Group is subject to disclosure requirements in accordance with the FINMA circular 2016/1 'Disclosure – banks'. Bank Julius Baer & Co. Ltd. is exempt from detailed Pillar 3 disclosures. It must nevertheless disclose its key figures on an annual basis in its Annual Report with reference to the Group Pillar 3 information published in the Financial Reporting section of the Julius Baer website (www.juliusbaer.com/reporting).

The Group's Pillar 3 disclosures as at 30 June 2020, 31 December 2019 and 30 June 2019 are based on fully applied amounts, which means that no Basel III phase-in rules are applied anymore.

FREQUENCY OF PILLAR 3 DISCLOSURES

This report is published semi-annually, in accordance with FINMA requirements for category 3 banks. FINMA has specified the reporting frequency for each disclosure as either annual or semi-annual. Comparative period information and commentaries on movements in the period must be provided in line with this frequency. More information regarding qualitative and quantitative Pillar 3 disclosures can be found in the document 'Basel III Pillar 3 Disclosures 2019', published in the Financial Reporting section of the Julius Baer website (www.juliusbaer.com/reporting).

KEY METRICS

KM1: Key metrics at consolidated group level

No.[1]		**30.06.2020** *CHF m*	31.12.2019 *CHF m*	30.06.2019 *CHF m*
	Available capital			
1	Common Equity Tier 1 (CET1)	**2,950.1**	2,876.7	2,836.8
2	Tier 1 capital	**4,118.6**	4,420.9	4,387.1
3	Total capital	**4,250.2**	4,521.7	4,495.7
	Risk-weighted assets (RWA)			
4	RWA	**21,284.9**	20,494.6	21,699.8
4a	Minimum capital requirements	**1,702.8**	1,639.6	1,736.0
	Risk-based capital ratios as a percentage of RWA			
5	Common Equity Tier 1 ratio	**13.9%**	14.0%	13.1%
6	Tier 1 ratio	**19.3%**	21.6%	20.2%
7	Total capital ratio	**20.0%**	22.1%	20.7%
	Additional CET1 buffer requirements as a percentage of RWA			
8	Capital conservation buffer requirement as per the Basel minimum standards (2.5% from 2019)	**2.5%**	2.5%	2.5%
9	Countercyclical buffer requirement (art. 44a ERV) as per the Basel minimum standards	**0.1%**	0.3%	0.2%
11	Total of bank CET1 specific buffer requirements as per the Basel minimum standards	**2.6%**	2.8%	2.7%
12	CET1 available after meeting the bank's minimum capital requirements as per the Basel minimum standards	**9.4%**	9.5%	8.6%
	Target capital ratios according to appendix 8 CAO (% of RWA)			
12a	Capital buffer according to appendix 8 CAO	**4.0%**	4.0%	4.0%
12b	Countercyclical capital buffer (art. 44 and 44a CAO)	**0.1%**	0.4%	0.4%
12c	CET1 target ratio according to appendix 8 CAO in addition to countercyclical capital buffer according to art. 44 and 44a CAO	**7.9%**	8.2%	8.2%
12d	T1 target ratio according to appendix 8 CAO in addition to countercyclical capital buffer according to art. 44 and 44a CAO	**9.7%**	10.0%	10.0%
12e	Total capital target ratio according to appendix 8 CAO in addition to countercyclical capital buffer according to art. 44 and 44a CAO	**12.1%**	12.4%	12.4%
	Basel III leverage ratio			
13	Total Basel III leverage ratio exposure measure	**106,077.6**	101,002.5	102,829.7
14	Basel III leverage ratio (row 2/row 13)	**3.9%**	4.4%	4.3%
	Liquidity coverage ratio (3-month average)			
15	Total HQLA	**24,531.2**	14,724.3	15,953.3
16	Total net cash outflow	**12,333.8**	8,452.7	8,602.1
17	LCR ratio	**198.9%**	174.2%	185.5%

[1] Row numbers according to the sample table enclosed in the FINMA circular 2016/1, annex 2, table KM1.

OVERVIEW OF RISK-WEIGHTED ASSETS

The following table provides an overview of risk-weighted assets (RWA) and the related minimum capital requirement by risk type. Capital requirements presented in the following table are calculated based on 8% of RWA.

OV1: Overview of risk-weighted assets

No.		**30.06.2020** RWA[1] *CHF m*	31.12.2019 RWA[1] *CHF m*	**30.06.2020** Minimum capital requirements *CHF m*
1	Credit risk (excluding CCR – counterparty credit risk)	**13,137.1**	13,282.7	**1,051.0**
2	*of which standardised approach (SA)*[2]	***13,137.1***	*13,282.7*	***1,051.0***
3	*of which foundation internal ratings-based (F-IRB) approach*			
4	*of which supervisory slotting approach*			
5	*of which advanced internal ratings-based (A-IRB) approach*			
6	Counterparty credit risk	**946.4**	695.4	**75.7**
7	*of which standardised approach for counterparty credit risk (SA-CCR)*[3]	***757.5***		***60.6***
7a	*of which simplified standard approach (VSA-CCR)*			
7b	*of which mark-to-market method*		*437.8*	
8	*of which internal model method (IMM or EPE model methods)*			
9	*of which other CCR*	***188.9***	*257.6*	***15.1***
10	Credit valuation adjustment (CVA)	**307.1**	180.5	**24.6**
11	Equity positions in banking book under market-based approach			
12	Investments in managed collective assets – look-through approach[3]			
13	Investments in managed collective assets – mandate-based approach[3]			
14	Investments in managed collective assets – fall-back approach[3]			
14a	Investments in managed collective assets – simplified approach[3]	**180.8**		**14.5**
15	Settlement risk	**2.5**	3.6	**0.2**
16	Securitisation exposures in banking book	**80.6**	78.0	**6.4**
17	*of which securitisation internal ratings-based approach (SEC-IRBA)*			
18	*of which securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA)*	***80.6***	*78.0*	***6.4***
19	*of which securitisation standardised approach (SEC-SA)*			
20	Market risk	**902.6**	670.8	**72.2**
21	*of which standardised approach (SA)*	***403.8***	*448.4*	***32.3***
22	*of which internal model approach (IMA)*	***498.8***	*222.4*	***39.9***
23	Capital charge for switch between trading book and banking book			
24	Operational risk	**5,612.1**	5,461.7	**449.0**
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	**115.8**	121.8	**9.3**
26	Floor adjustment			
27	**Total**	**21,284.9**	20,494.6	**1,702.8**

[1] Explanations on movements between reporting periods 30.06.2020 and 31.12.2019: Higher RWA following the introduction of SA-CCR (line no. 7) and new regulation for the calculation of RWA for investments in funds (line no. 14a) as well as due to the increase in market risk RWA (line no. 20) driven by market volatility and due to the increase in operational risk RWA (line no. 24) as a result of higher operating income.

[2] Includes RWA of non-counterparty-related risk.

[3] New regulations for the calculation of RWA for SA-CCR and investments in funds have been implemented effective 01.01.2020.

LIQUIDITY COVERAGE RATIO

COMPONENTS

In the following table, the LCR is disclosed as a 3-month average value per quarter. The total of the high-quality liquid assets (no. 1 in the following table) increased in the second quarter compared to the previous quarter of 2020. Simultaneously, the total of net cash outflows (no. 22) increased in the second quarter. The changes resulted in a higher LCR in Q2 2020 than in Q1 2020, significantly above the regulatory required minimum ratio of 100% and risk tolerances defined internally.

LIQ1: Liquidity coverage ratio

		Q1 2020 3-month average		Q2 2020 3-month average	
		Unweighted value CHF m	Weighted value CHF m	Unweighted value CHF m	Weighted value CHF m
No.					
A.	**High-quality liquid assets**				
	Cash and balances with central banks		12,065.1		17,877.5
	Securities category 1 and category 2		5,716.2		6,653.7
1	**Total**		**17,781.3**		**24,531.2**
B.	**Cash outflows**				
2	Retail deposits and deposits	39,174.4	5,442.3	40,631.3	5,622.6
3	*of which stable deposits*	*3,049.0*	*152.5*	*3,314.4*	*165.7*
4	*of which less stable deposits*	*36,125.4*	*5,289.8*	*37,316.9*	*5,456.8*
5	Unsecured wholesale funding	41,624.4	27,281.2	39,432.2	25,132.9
6	*of which operational deposits (all counterparties)*	-	-	-	-
7	*of which non-operational deposits (all counterparties)*	*38,870.4*	*24,527.2*	*36,952.6*	*22,653.3*
8	*of which unsecured debt*	*2,754.0*	*2,754.0*	*2,479.5*	*2,479.5*
9	Secured wholesale funding		846.4		738.6
10	Additional cash outflows	3,877.2	3,539.0	3,780.3	3,415.9
11	*of which outflows related to derivatives and other transactions*	*3,403.2*	*3,403.2*	*3,040.7*	*3,040.7*
12	*of which outflows related to loss of funding on debt products*	-	-	-	-
13	*of which committed credit and liquidity facilities*	*474.0*	*135.7*	*739.6*	*375.2*
14	Other contractual funding obligations	850.6	840.2	1,287.9	1,272.5
15	Other contingent funding obligations	11,108.4	144.7	12,209.4	133.6
16	**Total**		**38,093.7**		**36,316.0**
C.	**Cash inflows**				
17	Secured lending (e.g. reverse repurchase transactions)	337.5	323.0	955.3	439.5
18	Income from fully performing exposures	36,735.0	21,741.6	31,488.0	17,742.6
19	Other cash inflows	6,581.4	6,581.4	5,800.1	5,800.1
20	**Total**[1]	**43,653.9**	**27,961.2**	**38,243.4**	**23,982.2**
	Liquidity coverage ratio				
21	Total of high-quality liquid assets		17,781.3		24,531.2
22	Total net cash outflows		10,132.5		12,333.8
23	**Liquidity coverage ratio (in %)**		**175.5%**		**198.9%**

[1] After applying the cap on cash inflows at maximum 75% of total cash outflows, calculated on a monthly basis.

MARKET RISK

OVERVIEW OF APPLIED METHODS

The amount of capital required for market risks in the regulatory trading book is calculated using a variety of methods approved by FINMA. The components of market risk RWA are value at risk (VaR) and stressed value at risk (SVaR). For hedge funds held in the trading book, the required capital is calculated according to the credit risk standardised approach. Given the limited materiality of the positions concerned, the required capital for the Group's fixed income trading positions is calculated according to the market risk standardised approach. Therefore, the incremental risk charge (IRC) is not applicable. The comprehensive risk measure (CRM) capital requirements are also not applicable, as the Group does not engage in trading of multi-risk-tranche securitisation positions or nth-to-default credit derivatives.

The following table sets out details on the VaR and SVaR movements. Due to the COVID-19 pandemic and related (extreme) market movements, VaR as well as SVaR figures have increased. In addition, RWA increased due to the change of the period used to calculate SVaR figures.

MR2: Market risk: RWA flow statements of market risk exposures under an IMA

							30.06.2020
		a	b	c	d	e	f
		VaR *CHF m*	SVaR *CHF m*	IRC *CHF m*	CRM *CHF m*	Other *CHF m*	Total RWA *CHF m*
No.							
1	RWA at 31.12.2019	100.1	122.3				222.4
2	Movement in risk levels	34.0	41.6				75.6
3	Model updates/changes						
4	Methodology and policy						
5	Acquisitions and disposals						
6	Foreign exchange movements						
7	Other	37.9	162.9				200.8
8	RWA at end of reporting period	172.0	326.7				498.8

The following table shows minimum, maximum, average and period-end regulatory VaR and SVaR, using a 10-day holding period and a confidence interval of 99 %. The incremental risk charge (IRC) and the comprehensive risk measure (CRM) capital charge are not applicable.

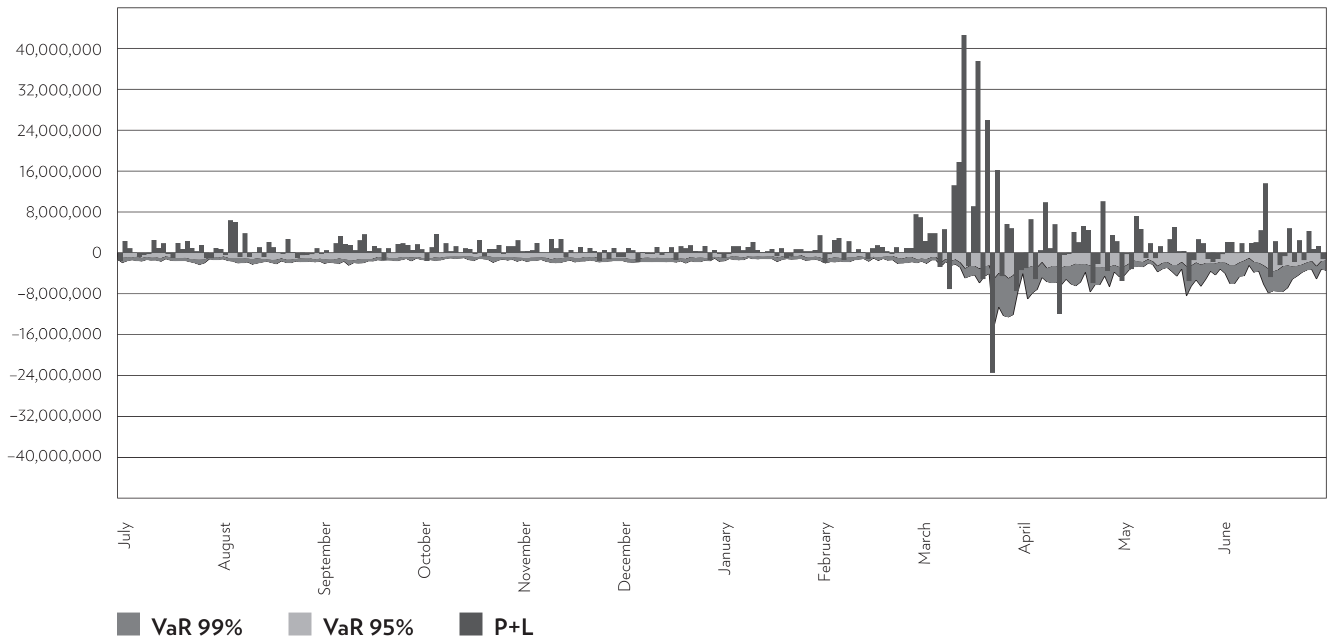
MR3: Market risk: IMA values for trading portfolios

No.		30.06.2020 *CHF m*
	VaR (10-day, 99%)	
1	Maximum value	16.5
2	Average value	3.2
3	Minimum value	0.0
4	Period end	2.5
	Stressed VaR (10-day, 99%)	
5	Maximum value	20.8
6	Average value	4.8
7	Minimum value	0.7
8	Period end	5.4

COMPARISON OF VAR ESTIMATES WITH GAINS/LOSSES

The adequacy of the VaR calculation, which is based on a simulation using historical market movements, is monitored through regular back-testing. This involves the comparison of the VaR values calculated each day with the hypothetical gains or losses which would have occurred if the end-of-day positions had been left unchanged on the next trading day. The following chart shows the daily calculations of VaR in 2019/2020 (at confidence intervals of 95% and 99% and for a one-day holding period) compared with hypothetical gains or losses.
A back-testing exception occurs when the change in overall position value resulting from the back-testing simulation is negative and its absolute value is greater than the VaR (at a confidence interval of 99%) for the relevant day's closing positions.

MR4: Market risk: Comparison of VaR estimates with gains/losses (CHF)



As of 1 July 2019, the preceding 12-month period contained one back-testing exception that fell out of the observation period during the course of 2019. Next to one exception in July 2019, additional six back-testing exceptions were registered during the COVID 19 pandemic. The drivers for all six exceptions were exceptional market movements in terms of equity prices and volatilities, which were extreme compared to what the Group has experienced over the last 12 months. As of 30 June 2020, the overall number of back-testing exceptions stands therefore at seven.

According to Circular 2008/20, FINMA may disregard individual exceptions if the institution is able to prove that these exceptions are not attributable to a lack of precision of the risk aggregation model. FINMA has used this discretion according to FINMA Guidance 06/2020 so that the back-testing exceptions caused by the COVID-19 pandemic will not lead to an increase of VaR capital multipliers. As such, the VaR capital multiplier applied by the Group remained constant based on one exception for the 12-month period since 30 June 2019.

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